

Request for City Council Action

Date: April 22, 2002

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: Request for Final Approval of up to \$165,000,000 in 501(c)(3) Tax-exempt Revenue Bonds on behalf of Fairview Health Services for a project at Fairview-University Medical Center.

Previous Directives: Preliminary approval adopted by City Council on April 5, 2002. Project is requesting final approval at this time. Fairview Health Services has made use of tax-exempt revenue bond financing in the past for other projects. The most recent was in 1993 for \$44,570,000 done jointly with the City of Edina for parking lot and other improvements at Fairview-Riverside and Fairview-Southdale.

Ward: 2nd Ward

Neighborhood Group Notification: On March 8, 2002, the West Bank Community Coalition was notified of this pending proposal for Fairview-University Medical Center.

Consistency with *Building a City That Works*: The improvements to the Fairview-University Medical Center are consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: Fairview-University Medical Center complies with the policies of The Minneapolis Plan.

Zoning Code Compliance: The medical facilities are zoned high density office-residential, OR3-Institutional Office Residence District.

Impact on the MCDA Budget:

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): The issuance of 501(c)(3)

tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: Does not apply. Project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: The Fairview-University Medical Center will enter into a voluntary Job Linkage Agreement.

Affirmative Action Compliance: The project will comply with the affirmative action requirements of the City by filing an Affirmative Action Plan.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published giving Final Approval to the issuance of up to \$165,000,000 in 501(c)(3) Tax-exempt Revenue Bonds on behalf of Fairview Health Services for a project at Fairview-University Medical Center.

PROJECT LOCATION & DESCRIPTION:

Fairview Health Services, a Minnesota 501(c)(3) nonprofit organization, owns and operates the Fairview-University Medical Center located at 2450 Riverside Avenue and 420 Delaware Street S.E. It has been four years since the affiliation of Fairview and the University of Minnesota's Health Center.

It is proposed that the City of Minneapolis issue up to \$165 million in 501(c)(3) tax-exempt revenue bonds as a conduit financing to finance the following projects:

- Acquisition and installation of hospital equipment;
- Construction of improvements and remodeling of hospital facilities;
- Refinancing of outstanding balances on two prior City of Minneapolis revenue bond issues, the Series 1991A and Series 1991B;
- Refinancing of outstanding balance on a Princeton, MN revenue bond for Fairview through a joint powers agreement with the City of Princeton; and
- Funding of debt service reserves for the revenue bond issue and payment of costs of issuance for the bonds.

As part of the hospital's continuing plans for updating and enhancements, a number of improvements are scheduled for the Fairview-University complex. Other recent major building projects have occurred in Red Wing, Fairview Southdale and Fairview Ridges. The improvements at the Fairview-University Medical Center will expand the medical-surgical inpatient capacity, expand the operating room capacity, expand the outpatient clinic space, and expand the parking by adding additional floors to the Yellow Ramp.

TYPE OF FINANCING:

It is anticipated that up to \$165 million in 501(c)(3) tax-exempt revenue bonds will be sold to institutional and retail buyers through the efforts of the underwriting team: RBC Dain Rauscher, Dougherty & Company and Salomon Smith Barney.

The parties currently engaged in structuring the revenue bond financing will be the law firms of Dorsey & Whitney and Kennedy & Graven who will be serving jointly as co-bond counsel, Wells Fargo as bond trustee, and the above-mentioned underwriting team.

Sources:

Tax-exempt Revenue Bonds Series 2002	\$165,000,000
Total	<u>\$165,000,000</u>

Uses:

Refinancing of Minneapolis Series 1991-A and 1991-B	\$ 32,000,000
Refinancing of Princeton, MN Series 1991-C	12,000,000
Construction costs, renovation costs and hospital equipment purchases	100,300,000
Debt Service Reserves	16,300,000
Issuance Costs and Other Project Costs	<u>4,400,000</u>
Total	\$165,000,000

PRESENT EMPLOYMENT:

Fairview Health Services employs 18,000 persons throughout their facilities, with 6,800 employed in Minneapolis facilities.

NEW EMPLOYMENT:

A minimal number of new jobs is expected to be generated, although the project will help retain all the existing jobs.

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:

As a tax-exempt 501(c)(3) facility, there is no tax impact as a result of the project.

AFFIRMATIVE ACTION COMPLIANCE:

Project will have a signed affirmative action plan prior to final approval on the bonds.

MCDA IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.

Fairview-University: In compliance.

Property Improvements

No more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures.

Fairview-University: N.A. All property needed for the various projects is already owned by Fairview Health Services.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.

Fairview-University: Project complies.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.

Fairview-University: Various pieces of hospital equipment for the hospital facilities, the majority of which are considered fixtures.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities.

Fairview-University: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs is preserved; any interest cost savings must directly reduce patient costs.

Fairview-University: The proposed financing does include debt refinancing with corresponding debt service savings. A significant number of jobs will be retained and interest savings will reduce patient costs through the availability of updated equipment and facilities.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

In addition, the issuance of refunding bonds will not require an allocation from the State's volume cap in that refundings are exempt from the volume cap.

BOND COUNSEL:

Dorsey & Whitney

UNDERWRITERS:

RBC Dain Rauscher
Dougherty & Company
Salomon Smith Barney

CITY COUNCIL PRELIMINARY
APPROVAL:

April 5, 2002

MINNESOTA DEPARTMENT OF
TRADE AND ECONOMIC
DEVELOPMENT APPROVAL:

Application submitted on April 17, 2002,
pending approval.

**Authorizing the Issuance and Sale
Of Revenue Bonds of the City on Behalf of
Fairview Health Services and the Execution of Documents**

Whereas, this Council has received a proposal that the City of Minneapolis (the "City") issue its revenue bonds (the "Bonds") under Minnesota Statutes, Sections 469.152 to 469.165 (the "Act") for the purposes of (a) financing a portion or all of the cost of a proposed project (the "Project"), on behalf of Fairview Health Services, a Minnesota nonprofit corporation (the "Corporation"), consisting of the acquisition and installation of certain items of equipment in and the construction of certain improvements to and the remodeling of the existing hospital and health care facilities located at 2450 Riverside Avenue and 420 Delaware Street Southeast in the City owned and operated by the Corporation, (b) refunding all or a portion of the City's outstanding Hospital System Revenue Refunding Bonds, 1991 Series A (Fairview Hospital and Healthcare Services), and the City's outstanding Hospital System Revenue Bonds, 1991 Series B (Fairview Hospital and Healthcare Services) (the "Minneapolis Bonds"); (c) refunding all or a portion of the City of Princeton, Minnesota Hospital System Revenue Bonds, 1991 Series C (Fairview Hospital and Health Care Services), issued for the purpose of acquisition of land and construction of the Corporation's Northland Regional Hospital, a general acute care hospital located at 911 Northland Drive, Princeton, Minnesota and the acquisition and installation of equipment therein (the "Princeton Bonds"), (d) funding a deposit to the debt service reserve fund securing the Bonds, and (e) paying certain costs of issuance of the Bonds.

Whereas, at a public hearing, duly noticed and held on March 25, 2002, in accordance with the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended, on the proposal to undertake and finance the Project and refund the Minneapolis Bonds and the Princeton Bonds, all parties who appeared at the hearing were given an opportunity to express their views with respect to the proposal to undertake and finance the Project and refund the Minneapolis Bonds and the Princeton Bonds, and interested persons were given the opportunity to submit written comments to the City Clerk before the time of the hearing.

Whereas, this Council hereby finds that the issuance and sale of up to \$165,000,000 aggregate principal amount of the Bonds in one or more series under the authority contained in the Act to finance the Project and refund the Minneapolis Bonds and Princeton Bonds (the Minneapolis Bonds and Princeton Bonds are hereinafter together referred to as the "Refunded Bonds") is in the best interest of the City and the City hereby determines to issue and sell such Bonds.

Whereas, the proceeds of the Bonds will be lent (the "Loan") by the City to Fairview, in order to refund the Refunded Bonds, to finance all or a portion of the cost of the Project, to fund a debt service reserve fund for the Bonds and to pay certain costs of issuance of the Bonds.

Whereas, pursuant to a Loan Agreement (the "Loan Agreement"), to be entered into between the City and Fairview, a copy of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary, Fairview will issue to the City its Note or Notes (whether one or more, the "Notes"). The Notes will be issued under the Master Trust Indenture (the "Master Indenture"), dated as of November 1, 1985, between Fairview, as successor to Carondelet Community Hospitals, Inc. and U.S. Bank National Association, formerly known as First Trust National Association, as trustee (the "Master Trustee"), as supplemented and amended by Supplemental Indenture No. 9 ("Supplemental Indenture No. 9") to be entered into between Fairview and the Master Trustee. Under the Notes Fairview will unconditionally agree to repay the Loan made by the City under the Loan Agreement in specified amounts and at specified times sufficient to make the necessary payments of principal of, premium, if any, and interest on the Bonds, when due. In addition, the Loan Agreement contains provisions relating to the payment by Fairview of administrative costs of the Bond Trustee (as hereinafter defined), the administrative fee of the City, indemnification, insurance and other agreements and covenants which are required by the Act or which are permitted by the Act and which the City and Fairview deem necessary or desirable for the sale of the Bonds.

Whereas, pursuant to an Indenture of Trust (the "Bond Indenture") to be entered into between the City and Wells Fargo Bank Minnesota, National Association, as Trustee (the "Bond Trustee"), a copy of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary, the City assigns and pledges all of its right, title and interest in the Loan Agreement (other than the right of the City for indemnification and administrative expenses), the Notes, the Master Indenture and the Supplemental Indenture to the Bond Trustee. In addition, the Bond Indenture, among other things, sets the interest rates, maturity dates and redemption provisions for the Bonds, establishes the various funds and accounts for the deposit and transfer of money and contains other provisions which are required by the Act or which are permitted by the Act and which the City and Fairview deem necessary or desirable in connection with the sale of the Bonds.

Whereas, pursuant to the terms of an Escrow Agreement whether one or more (the "Escrow Agreement"), to be entered into between the City, Fairview, the Bond Trustee and Wells Fargo Bank Minnesota, National Association, as Escrow Agent (the "Escrow Agent"), the form of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary, a portion of the proceeds of the Bonds will be deposited with the Escrow Agent, and applied with other available funds of Fairview and funds held by the trustees of the Refunded Bonds for the purpose of defeasing the Refunded Bonds.

Whereas, the Bonds will be special limited obligations of the City payable solely from amounts payable by Fairview under the Notes, other than to the extent payable from the proceeds of the Bonds. The Bonds shall not be payable from or charged upon any funds other than the revenue pledged to the payment thereof, nor shall the City be subject to any liability thereon. No holder or holders of any Bond shall ever have the right to compel any exercise of the taxing power of the City to pay any such Bond or the interest thereon, nor to enforce payment thereof against any property of the City except the Notes. The Bonds shall not constitute a debt of the City within the meaning of any charter, constitutional or statutory limitation.

Whereas, the Bonds will be purchased from the City by Salomon Smith Barney Inc., RBC Dain Rauscher Incorporated and Dougherty & Company LLC (the "Underwriters") pursuant to a Purchase Contract (the "Bond Purchase Agreement") between the City, Fairview and Salomon Smith Barney Inc., on behalf of itself and the other Underwriters, a copy of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary.

Whereas, a draft of a Preliminary Official Statement, related to the Bonds, has been presented to the Council at this meeting and has been reviewed to the extent deemed necessary. The Preliminary Official Statement will be distributed by the Underwriters to potential purchasers of the Bonds.

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That in order to provide for the refunding of the Refunded Bonds and the financing of all or a portion of the costs of the Project, the City hereby authorizes the issuance of the Bonds as revenue bonds under the Act in one or more series, in the aggregate principal amount of up to \$165,000,000 (exclusive of any portion representing original issue discount). The Mayor, the City Clerk and the City Finance Officer are hereby authorized to approve the purchase price of the Bonds, provided that the purchase price equals or exceeds 98% of the principal amount of the Bonds less any portion of such principal amount which represents original issue discount; the aggregate principal amount of the Bonds, provided that such principal amount is not in excess of \$165,000,000 (exclusive of any portion representing original issue discount); the maturity schedule of the Bonds, provided that the Bonds mature at any time or times in such amount or amounts not exceeding 30 years from the date of issuance thereof; the provisions for prepayment and redemption of the Bonds prior to their stated

maturity; and the interest rates of the Bonds, provided that no interest rate exceeds 7.00% per annum. Such approval shall be conclusively evidenced by the execution of the Bond Purchase Agreement as provided herein.

Be It Further Resolved that each Bond shall be executed on behalf of the City by the manual or facsimile signatures of the Mayor, the City Clerk and City Finance Officer, and its corporate seal (which may be in facsimile) shall be thereunto affixed, imprinted or engraved. The Bonds when executed and delivered shall contain a recital that they are issued pursuant to the Act. The Bond Trustee is hereby designated as authenticating agent pursuant to Minnesota Statutes, Section 475.55. If any of the officers who shall have signed or sealed any of the Bonds shall cease to be such officers of the City before the Bonds so signed and sealed shall have been actually authenticated by the Trustee or delivered by the City, such Bonds nevertheless may be authenticated, issued and delivered with the same force and effect as though the person or persons who signed or sealed such Bonds had not ceased to be such officer or officers of the City.

Be It Further Resolved that the Bond Indenture, the Loan Agreement, and the Escrow Agreement are hereby made a part of this Resolution as fully as though set forth in full herein and are hereby approved in the form submitted to this meeting, and the Mayor, City Clerk and City Finance Officer are hereby authorized and directed to execute, acknowledge and deliver the Bond Indenture, the Loan Agreement and the Escrow Agreement on behalf of the City with such changes, insertions and omissions therein as do not change the substance of the Bond Indenture, Loan Agreement or the Escrow Agreement and as may be approved by the Mayor, City Clerk and City Finance Officer, such approval to be evidenced conclusively by their execution of the Bond Indenture, the Loan Agreement and the Escrow Agreement.

Be It Further Resolved that the City hereby consents to the distribution by the Underwriters to potential purchasers of the Bonds of a Preliminary Official Statement in substantially the form submitted to the Council at this meeting, and the distribution by the Underwriters of an official statement by the Underwriters to purchasers of the Bonds in substantially the form of the Preliminary Official Statement. The City has not and will not participate in the preparation of the Preliminary Official Statement and has made no independent investigation with respect to the information contained therein or in the appendices thereto, and the City assumes no responsibility for the sufficiency, accuracy or completeness of such information.

Be It Further Resolved that the Bond Purchase Agreement is hereby made a part of this Resolution as fully as though set forth in full herein and is hereby approved in the form submitted to this meeting and, upon the determination of the terms of the Bonds (within the limitations set forth herein) and the execution of the Bond Purchase Agreement by Fairview and by Salomon Smith Barney Inc., on behalf of itself and the Underwriters, the Mayor, City Clerk and City Finance Officer are hereby authorized and directed to execute the Bond Purchase Agreement on behalf of the City, with such further changes, insertions or omissions therein as do not change the substance of the Bond Purchase Agreement and as may be approved by the Mayor,

City Clerk and City Finance Officer, such approval to be evidenced conclusively by their execution of the Bond Purchase Agreement.

Be It Further Resolved that the Mayor, the City Clerk, the City Finance Officer and all other officers of the City are hereby authorized and directed to execute and deliver all other documents which may be required under the terms of the Bond Indenture, the Loan Agreement, the Escrow Agreement or the Bond Purchase Agreement, and to take such other action as may be required or appropriate for the performance of the duties imposed thereby or to carry out the purposes thereof.

Be It Further Resolved that in the absence or disability of the Mayor, the City Clerk, the City Finance Officer or any other officer of the City named in any instrument to be executed on behalf of the City in connection with the issuance of the Bonds, the acting Mayor, Assistant City Clerk, Deputy Finance Officer or other officer may execute such instrument. The execution of any instrument by an officer of the City shall be conclusive evidence of its approval.

Be It Further Resolved that the City Finance Officer is hereby designated for all purposes of the Loan Agreement, the Bond Indenture and the Bond Purchase Agreement as the City official authorized to execute on behalf of the City certificates, requests or consents as provided in the Loan Agreement, the Bond Indenture and the Bond Purchase Agreement.

Be It Further Resolved that the bonds are hereby designated "Program Bonds" and are determined to be within the "Health Care Program" and the "Program", all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

Be It Further Resolved that this resolution shall take effect upon publication.

